



AUSTRALIA

GOR AU Outperform

Price (at 05:10, 21 Jan 2015 GMT) A\$0.39

Valuation A\$ 0.57

- DCF (WACC 10.0%)

12-month target A\$ 0.57

12-month TSR % +46.2

Volatility Index Very High

GICS sector Materials

Market cap A\$m 232

30-day avg turnover A\$m 0.4

Number shares on issue m 594.9

Investment fundamentals

Year end 30 Jun		2014A	2015E	2016E	2017E
Revenue	m	0.0	0.0	0.0	176.5
EBIT	m	-2.9	-10.2	-10.4	56.4
Reported profit	m	0.4	-6.8	-8.4	22.5
Adjusted profit	m	0.4	-6.8	-8.4	22.5
Gross cashflow	m	0.4	-0.7	-2.1	68.9
CFPS	¢	0.1	-0.1	-0.2	5.2
CFPS growth	%	nmf	nmf	-48.9	nmf
PGCFPS	x	452.7	nmf	nmf	7.5
PGCFPS rel	x	51.58	nmf	nmf	1.09
EPS adj	¢	0.1	-1.1	-0.6	1.7
EPS adj growth	%	nmf	nmf	41.5	nmf
PER adj	x	456.5	nmf	nmf	23.0
PER rel	x	26.82	nmf	nmf	2.01
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-8.8	-17.6	-3.8	9.7
ROE	%	1.3	-12.5	-5.0	8.2
EV/EBITDA	x	-63.8	-54.7	-122.0	4.9
Net debt/equity	%	-26.7	-17.4	44.6	128.9
P/BV	x	5.5	3.2	2.0	1.8

GOR AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2015
(all figures in AUD unless noted)

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22 January 2015

Macquarie Securities (Australia) Limited

Gold Road Resources

Exploration optionality

Event

- GOR has released its December quarterly report summarising progress at the Gruyere project and exploration results across the exploration portfolio.

Impact

- Gruyere Scoping Study the main focus.** This included the completion of a 7,000m diamond and RC drill programme results of which we summarised in our [recent note](#). The Scoping Study is on track for delivery this quarter. Recent work has focused on assessing a range of throughput capacity scenarios from 5Mtpa to 10Mtpa. We currently assume a 6Mtpa run-rate producing ~200kozpa. Highlighting GOR's confidence in the outcome of the Scoping Study, 1.5 tonnes of material has been dispatched for full scale metallurgical testing for the PFS.
- Promising aircore results at Sun River – Wanderrie and Pacific Dunes – Corkwood.** A 42,000m aircore drilling programme was completed at Sun River – Wanderrie testing a number of targets. Assays returned some meaningful results including: **7 metres at 9.55 g/t Au** from 44 metres, **15 metres at 1.49 g/t Au** from 60 metres and **11 metres at 1.76 g/t Au** from 48 metres. These intersections will be followed up with a 1,000m RC drill programme in March 2015. Drilling identified six targets for follow up drilling at Pacific Dunes – Corkwood in the second half of 2015.
- Toto doesn't make the grade.** Sixty three RC holes for 8,188m were drilled at Toto to follow up on aircore anomalies. However, whilst the area is highly anomalous in gold no significant bedrock mineralisation was identified. GOR's current thinking is that there has been insufficient dilation along the shear zone running through the Toto area to allow the development of economic mineralisation. Given the encouraging results from other areas of the portfolio GOR has no plans to continue drilling at Toto, demonstrating the optionality in the company's large ground holding.
- Cashed up for the year.** GOR refreshed its cash reserves with a \$21m capital raise during the quarter putting it in a strong position to complete its active 2015 programme.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: A\$0.57 based on a DCF methodology.
- Catalyst: The Gruyere Scoping Study is expected in the current quarter and drilling for the PFS is due to commence in February. In addition to the work at Gruyere, GOR has an active exploration programme planned across its exploration portfolio which has the potential to deliver new discoveries.

Action and recommendation

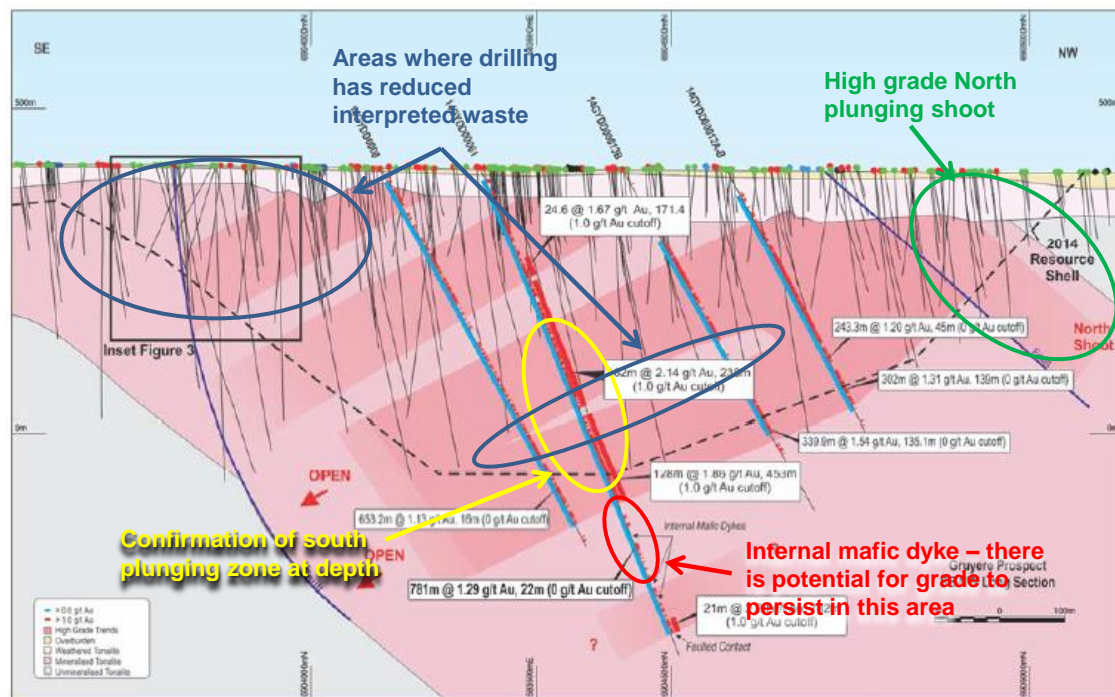
- Outperform.** We believe Gruyere will become the next big development play in the Australian gold space and that there is good potential for additional discoveries to be made.

Quarterly Exploration activity analysis

Gruyere Scoping Study imminent

- GOR's main focus during the quarter was advancing the Gruyere Scoping Study. This included the completion of a 7,000m diamond and RC drill programme results of which we summarised in our [recent note](#).

Fig 1 The recent drilling at Gruyere confirmed the continuity and depth extent of the main south plunging zone, reduced large zones of interpreted waste and identified high-grade mineralisation to the north.



Source: Company data, Macquarie Research, January 2015

The Scoping Study is on track for delivery this quarter. Recent work has focused on assessing a range of throughput capacity scenarios from 5Mtpa to 10Mtpa. We currently assume a 6Mtpa run rate producing ~200kozpa. The recent slowdown in the resource sector has given GOR the opportunity to increase the experience base of the study team and is also likely to result in improvements in capital and operating cost estimates. We have assumed an A\$500m capex bill for the project.

Highlighting GOR's confidence in the outcome of the Scoping Study 1.5 tonnes of material has been dispatched for full scale metallurgical testing for the Pre-Feasibility Study. This will follow on directly from the Scoping Study and will include an additional ~20,000m of drilling which will deliver a resource update and maiden resource later in the year.

Regional Exploration (100% GOR)

Regional exploration work on GOR's 100% held tenements focused on the Sun River – Wanderrie, Toto and Pacific Dunes – Corkwood target areas.

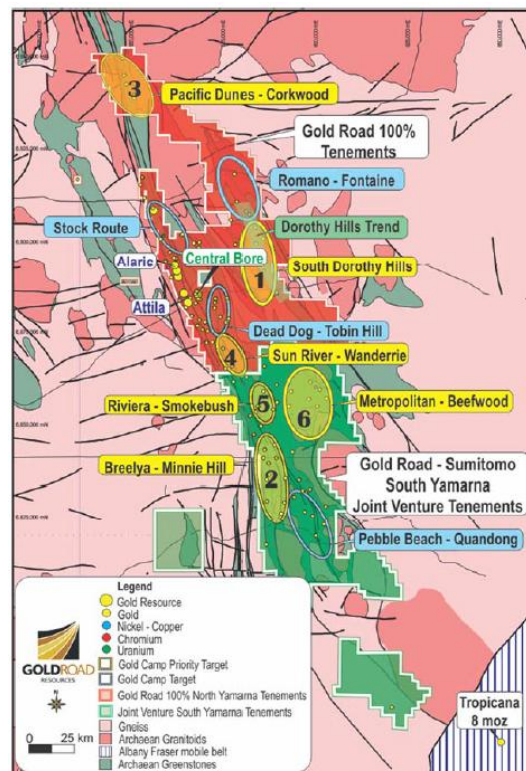
A 42,000m aircore drilling programme was completed at Sun River – Wanderrie testing a number of structural, geochemical and geophysical targets. Assays returned some meaningful results including:

- ⇒ 7 metres at 9.55 g/t Au from 44 metres, including 4 metres at 15.46 g/t Au from 44 metres;
- ⇒ 15 metres at 1.49 g/t Au from 60 metres, including 1 metre at 8.11 g/t Au from 74 metres;
- ⇒ 11 metres at 1.76 g/t Au from 48 metres.

The drilling identified four areas for follow-up drilling with a combined strike length of 8km. The high-grade aircore intersections will be followed up with a 1,000m RC drill programme in March 2015.

Another aircore programme was completed at Pacific Dunes – Corkwood. Holes were drilled on 800m space lines across a 12km section of the Yamarna Shear corridor. Drilling identified six targets for follow up drilling in the second half of 2015.

Fig 2 GOR's ground holding is large and prospective



Source: Company data, Macquarie Research, January 2015

Sixty three RC holes for 8,188m were drilled at Toto to follow up on aircore anomalies. However, whilst the area is highly anomalous in gold no significant bedrock mineralisation was identified. GOR's current thinking is that there has been insufficient dilation along the shear zone running through the Toto area to allow the development of economic mineralisation. Given the encouraging results from other areas of the portfolio GOR has no plans to continue drilling at Toto, demonstrating the optionality in the company's large ground holding.

South Yamarna JV (Sumitomo earning 50%)

A 312 hole aircore drilling totalling 16,144m was completed at the Riviera – Smoke Bush camp testing 11 target areas. The drilling identified five new targets within weathered Archean basement rocks with evidence of strong shearing and alteration.

Gold Road Resources

ASX: GOR Price: (A\$ps) 0.30 Year end: Jun Rating: Outperform Up/dn
Mkt cap: (A\$m) 178 Diluted shares (m) 594.9 Target: 0.57 90%

ASSUMPTIONS		FY11	FY12	FY13	FY14	FY15e	FY16e	FY17e
Exchange Rate	A\$/US\$	0.99	1.03	1.03	0.92	0.85	0.77	0.80
Spot Gold	(US\$/oz)	1,371	1,672	1,604	1,295	1,240	1,314	1,408

RATIO ANALYSIS		FY11	FY12	FY13	FY14	FY15e	FY16e	FY17e
Diluted share capital	m	432.1	453.0	494.1	512.8	661.5	1,328.2	1,328.2
EPS (diluted and pre sig. items)	A¢	-0.7	-0.7	-4.6	0.1	-1.1	-0.8	1.7

P/E	x	-41.5x	-45.7x	-6.5x	357.7x	-27.0x	-39.3x	17.7x
CFPS	A¢	(0.4)	(0.4)	(0.4)	0.2	(1.5)	(0.9)	2.9
P/CF	x	-78.0x	-85.6x	-78.8x	133.8x	-20.5x	-33.2x	10.4x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking Level	%	100%	100%	100%	100%	100%	100%	100%
Book value per share	x	0.05	0.09	0.05	0.07	0.11	0.20	0.22
P/Book value	x	6.1x	3.3x	5.8x	4.2x	2.7x	1.5x	1.4x
R.O.E. (pre sig items)	%	-14%	-7%	-88%	1%	-9%	-3%	8%
R.O.A. (pre sig items)	%	-17%	-9%	-87%	-7%	-13%	-2%	8%
Interest Cover	x	9.7x	4.3x	65.3x	8.4x	21.3x	-6.6x	2.3x
EBITDA per share	A\$ps	-0.01	-0.01	-0.05	-0.01	-0.02	-0.01	0.07
EV/EBITDA	x	-45.2x	-43.9x	-7.2x	-58.3x	-16.3x	-28.5x	5.7x

EARNINGS		FY11	FY12	FY13	FY14	FY15e	FY16e	FY17e
Sales Revenue	A\$m	0	0	0	0	0	0	176
Other Revenue	A\$m	0	0	0	0	0	0	0
Total Revenue	A\$m	0	0	0	0	0	0	176
Operating Costs	A\$m	0	0	0	0	0	0	(66)
Operational EBITDA	A\$m	0	0	0	0	0	0	110
Exploration Expense/Write-offs	A\$m	(0)	(0)	(20)	(0)	(6)	(6)	(6)
Corporate & Other Costs	A\$m	(3)	(4)	(4)	(3)	(4)	(4)	(7)
EBITDA	A\$m	(4)	(4)	(24)	(3)	(10)	(10)	96
D&A	A\$m	0	0	0	0	0	0	(40)
EBIT	A\$m	(4)	(4)	(24)	(3)	(10)	(10)	56
Net Interest	A\$m	0	1	0	0	0	(2)	(24)
Profit Before Tax	A\$m	(3)	(3)	(23)	(3)	(10)	(12)	32
Tax Expense	A\$m	0	0	1	3	3	4	(10)
Minorities	A\$m	0	0	0	0	0	0	0
Adjusted NPAT	A\$m	(3)	(3)	(23)	0	(7)	(8)	22
Significant Items (post tax)	A\$m	0	0	0	0	0	0	0
Reported NPAT	A\$m	(3)	(3)	(23)	0	(7)	(8)	22

CASHFLOW		FY11	FY12	FY13	FY14	FY15e	FY16e	FY17e
Net Profit	A\$m	-3	-3	-23	0	-7	-8	22
Interest/Tax/D&A	A\$m	(6)	(17)	9	(17)	(3)	(4)	50
Working Capital/Other	A\$m	7	19	12	17	0	0	(34)
Net Operating Cashflow	A\$m	(2)	(2)	(2)	1	(10)	(12)	38
Capex	A\$m	(7)	(18)	(10)	(13)	(31)	(319)	(290)
Investments	A\$m	0	0	0	0	0	0	0
Sale of PPE and Other	A\$m	(0)	(0)	1	3	0	0	0
Free cash flow	A\$m	(8)	(19)	(11)	(9)	(40)	(331)	(252)
Dividends Paid	A\$m	0	0	0	0	0	0	0
Debt	A\$m	0	0	0	0	0	200	205
Equity Issuance	A\$m	16	22	7	10	43	200	0
Other	A\$m	0	0	0	0	0	0	0
Net Financing Cashflow	A\$m	16	22	7	10	43	400	205
Net change in cash	A\$m	8	3	(4)	1	3	69	(47)

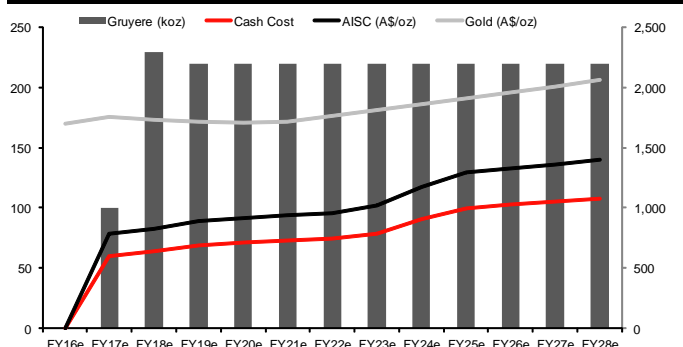
BALANCE SHEET		FY11	FY12	FY13	FY14	FY15e	FY16e	FY17e
Cash	A\$m	10	13	9	10	13	82	35
PP&E & Mine Development	A\$m	1	2	1	1	32	350	600
Exploration	A\$m	11	28	17	27	27	31	38
Total Assets	A\$m	23	43	27	39	77	469	699
Debt	A\$m	0	0	0	0	0	200	405
Total Liabilities	A\$m	1	2	1	3	4	205	412
Total Net Assets / Equity	A\$m	21	41	26	36	73	264	287
Net Debt / (Cash)	A\$m	(10)	(13)	(9)	(10)	(13)	118	370
Gearing (net debt/(nd + equity))	%	(84%)	(46%)	(53%)	(36%)	(21%)	31%	56%
Gearing (net debt/equity)	%	(46%)	(31%)	(35%)	(27%)	(17%)	45%	129%

ATTRIBUTABLE MINE OUTPUT

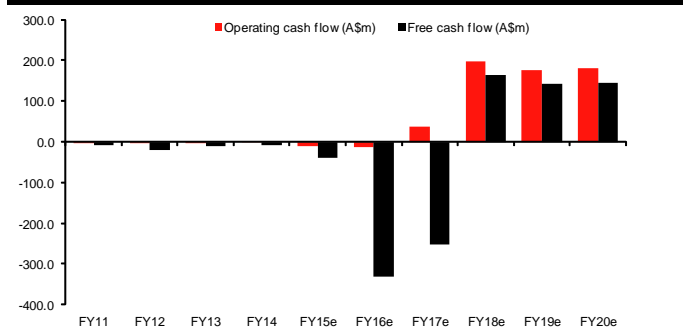
		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Gold production (equity)							
Gruyere	(koz)	0.0	100.1	229.1	219.9	219.9	219.9
Total	(koz)	0.0	100.1	229.1	219.9	219.9	219.9

Cash costs		FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Gruyere	(A\$/oz)	-	598	639	689	709	727
AISC Cash Costs							
Gruyere	(A\$/oz)	-	785	829	889	913	935
AISC Cash Costs	(A\$/oz)	-	785	829	889	913	935
Operational EBITDA Contribution (pre hedging)							
Gruyere	A\$m	-	110	236	212	206	205

MODELLED PRODUCTION



MODELLED CASH FLOW



RESERVES AND RESOURCES (ATTRIBUTABLE)

Reserves				
Project	Mt	g/t	koz	
Gruyere	0.0	0.0	0	
Attila - Central Bore	0.0	0.0	0	
Total	0.0	0.0	0	
Resources				
Project	Mt	g/t	koz	
Gruyere	96.9	1.23	3,833.1	
Attila - Central Bore	26.3	1.49	1,261.7	
Total	96.9	1.23	3,837	

EQUITY DCF VALUATION

Projects	Macquarie forecasts		Spot prices	
	A\$m	A\$ps	A\$m	A\$ps
Gruyere	233	0.45	353	0.51
Undeveloped Resources	94	0.18	95	0.14
Unpaid capital & new equity	2	0.00	2	0.00
Forwards	0	0.00	0	0.00
Corporate	(45)	(0.09)	(45)	(0.07)
Net cash (debt)	10	0.02	10	0.02
Net Equity Value (@ 10% WACC)	294	0.57	415	0.60
Price Target		0.57		0.60
GOR Blended price target	Blend	0.58		

Source: Company data, Macquarie Research, January 2015

Important disclosures:

<p>Recommendation definitions</p> <p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return >5% below Russell 3000 index return</p>	<p>Volatility index definition*</p> <p>This is calculated from the volatility of historical price movements.</p> <p>Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low-medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Financial definitions</p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / epowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>
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Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

GOR AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
 Source: FactSet, Macquarie Research, January 2015

12-month target price methodology

GOR AU: A\$0.57 based on a DCF methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
15-Jan-2015	GOR AU	Outperform	A\$.57
13-Aug-2014	GOR AU	Outperform	A\$.41

Target price risk disclosures:

GOR AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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